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## Florida Joins Chorus Demanding Uniform Rating System

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By [Shelly Sigo](#)

BRADENTON, Fla. - Florida's elected chief financial officer, Alex Sink, on Thursday joined 11 state treasurers and four major municipal issuers in urging the three major rating agencies to establish a uniform rating system for municipal and corporate debt.

Sink wrote that munis are penalized because the current system regards state and local government bonds as riskier investments, "when in fact history reveals that corporate bonds have defaulted more frequently than their similarly ranked municipal counterparts."

Municipal defaults, however, occur more often than people realize and there are vast operating differences between municipalities and corporations, said a [Standard & Poor's commentary](#) on Friday.

Sink, whose letter follows a similar request under California Treasurer Bill Lockyer's letterhead also sent last week, said she is concerned about taxpayers unfairly paying higher fees and interest on municipal bonds.

"Implementing a uniform rating system will allow for a certain level of comfort and understanding that will eliminate the current barriers for international investors and taxable buyers to invest in tax-exempt bonds," Sink said.

"Enlarging the buyer base will attract additional capital to the municipal market and will help reduce the borrowing cost to taxpayers."

Ratings that truly reflect low municipal bond defaults would allow significantly more debt to carry ratings of Aa/AA and Aaa/AAA and would be consistent with Securities and Exchange Commission Rule 2a-7, which limits money market fund holdings to securities with long-term ratings of double-A and higher, according to Dick Larkin, senior vice president and director of research at Herbert J. Sims & Co.

"This might negate the need for costly bond insurance to qualify as money market fund investments and reduce borrowing costs for local governments," Larkin said. "Using this scale for retroactive assignments of underlying ratings on insured debt would also allow more securities to be retained by money market funds, in the event that bond insurer ratings are downgraded below Aa/AA."

The comparability of U.S. municipal ratings to corporate ratings has been discussed at Standard & Poor's, the agency said Friday. But studies show that all munis are not "free from default risk."

Municipalities of lower credit quality tend not to request ratings, said Bill Montrone, managing director and head of Standard & Poor's U.S. public finance group, who received letters from Sink and Lockyer.

"Correspondingly, the universe of rated municipalities is, as a general proposition, more creditworthy and, of course, less likely to default," Montrone said in a statement.

Standard & Poor's found that between 1986 and 2006, there were 34 defaults

out of 9,700 rated issues. Another 56 of 8,700 housing issues rated by the agency also defaulted.

A broader study, including issuers not rated by Standard & Poor's, found more than 1,100 defaults occurred between 1986 and 2006. Of those 1,100 defaults, only 167 issues were rated by any agency.

"This comparison suggests a level of credit risk attendant to municipal finance that is greater than one might discern from a default study of Standard & Poor's-rated municipals alone," said Paul Coughlin, executive managing director of global corporate and government ratings.

Pointing to recent events, Standard & Poor's said that a number of municipalities are facing credit challenges, including Jefferson County, Ala., and Vallejo, Calif.

"In our view, the same features that can promote the credit stability found in recent default studies can also make it difficult for municipalities to react effectively in times of stress," said Standard & Poor's. "As a general rule, American democratic institutions do not have the ability to move as quickly or dramatically as corporations, nor has fiscally restructuring a municipality historically been a practical option."

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